

PREDATORY LENDING: HOW TO PROTECT YOURSELF BECOMING A VICTIM

WHAT IS PREDATORY LENDING?

Lending and mortgage origination practices become “predatory” when the borrower is led into a transaction that is not what they expected. Predatory lending practices may involve **lenders, mortgage brokers, real estate brokers, attorneys, and home improvement contractors**. Their schemes often target people who have small incomes but substantial equities in their homes.

Products themselves are not predatory. For example, a loan with a variable interest rate can be a very good financial tool for many borrowers. However, if the borrower is sold a loan with a variable interest rate disguised as a mortgage loan with a fixed interest rate, the borrower is the victim of a bait and switch or predatory lending practice. In short, this type of conduct is nothing more than mortgage fraud practiced against consumers.

Consumers can be lured into dealing with predatory lenders by aggressive mail, phone, TV, and even door-to-door sales tactics. **Their advertisements promise lower monthly payments as a way out of debt, but don't tell potential borrowers that they will be paying more and longer.** They may target minority communities by advertising in a specific language, or target neighborhoods with high numbers of elderly homeowners, or homeowners with little access to credit.

A FEW COMMON PREDATORY LENDING PRACTICES INCLUDE:

Equity Stripping: The lender makes a loan based upon the equity in your home, whether or not you can make the payments. If you cannot make payments, you could lose your home through foreclosure.

Bait-and-switch schemes: The lender may promise one type of loan or interest rate but without good reason, give you a different one. Sometimes a higher (and unaffordable) interest rate doesn't kick in until months after you have begun to pay on your loan.

Loan Flipping: A lender refinances your loan with a new long-term, high cost loan. Each time the lender "flips" the existing loan, you must pay points and assorted fees.

Packing: You receive a loan that contains charges for services you did not request or need. "Packing" most often involves making the borrower believe that credit insurance must be purchased and financed into the loan in order to qualify.

Hidden Balloon Payments: You believe that you have applied for a low rate loan requiring low monthly payments only to learn at closing that it is a short-term loan that you will have to refinance within a few years.

Hiding or Lying About Pre-Payment Penalties: You are lead to believe that there will be no fees penalty if you decide to pay your loan off early.

Discrimination: The lender charges a minority consumer more than a similar consumer who is not a member of a minority group.

Home improvement scams: A contractor talks you into costly or unnecessary repairs, steers you to a high-cost mortgage lender to finance the job, and arranges for the loan proceeds to be sent directly to the contractor. All too often, the contractor performs shoddy or incomplete work, and the homeowner is stuck paying off a long-term loan where the house is at risk.

As with any loan opportunity you're considering, contact the Department of Financial Institutions (DFI) at <http://www.dfi.wa.gov> to insure you are working with a licensed professional.

WHAT IS THE IMPORTANCE OF DISCLOSURES?

Within three days of filling out a loan application, your mortgage broker or lender must provide you with a written document giving you most of the information you will need to know about the loan.

These disclosures are required to be provided at two major points in the mortgage transaction. Disclosures made at the very start, or point of origination, are designed to give the borrower advance notice of the loan program and the costs associated with the program. Disclosures made at the end, or loan closing, are designed to confirm for the borrower that they are receiving what they expected. If disclosures are not provided, do not do business with this lender or broker.

HOW CAN CONSUMERS BE SMART SHOPPERS?

- **Seek out a licensed/bonded mortgage broker**, lending company, or authorized bank or credit union.
- **Be wary of loans offered through door-to-door sales** or telemarketing solicitations.
- **Be wary of offers made by construction companies** for loans in conjunction with construction services, make sure that they are also licensed or authorized to transact loan business.
- **Be wary of lenders or brokers who guarantee loan approval** regardless of your credit history or rating.
- **Shop around.** Interest rates and fees vary widely among lenders. Don't assume that you would not qualify for a loan from a traditional lender. Those loans are less expensive than subprime loans.
- **Be suspicious** of anyone who pressures you to act before you are ready.

- **Verify any claims** about rates, fees or your credit qualifications with another company before proceeding. Ask the loan officer to prove any claims.
- **Read the entire loan application** carefully before signing. Don't sign a loan form with blank spaces.
- **Make sure that every oral promise is in writing.** Oral promises give you no protection.
- **Ask that everything be explained to you.** Give the loan officer no option but to show you the documents themselves: the rate, the costs, the loan type, the length of the loan, information about prepayment penalties, the monthly payment amount, etc.
- **Watch out for hidden terms**, such as prepayment penalties and balloon payments.
- **Ask about fees and points before applying for a loan.** The interest rate is not the only important term of a loan. A loan with a low interest rate but high fees and points may cost you more than a loan with higher interest rate and lower fees.
- If you are considering a loan with a variable interest rate, **make sure you understand what conditions** will affect a change in your rate, and the amount by which your rate may fluctuate.
- **Consult an attorney before you sign.** When you feel uncomfortable have an attorney review the transaction. It won't cost much, but may save you a bundle.
- **Make sure that you have received, read and understood all required disclosure documents** before you close. At closing, make sure the loan terms have not changed from what you were told and that there are no additional fees that you did not know about.
- **Contact a non-profit credit-counseling agency** for assistance in determining whether you can afford your loan. Check with the National Foundation for Credit Counseling at 1-800-388-2227 or http://www.debtadvice.org/PersPlans/persplans_04.html to find a reputable local counselor.
- **Make sure the lender and broker you are dealing with are licensed.** Check with the Washington Department of Financial Institutions. <http://www.dfi.wa.gov/cs/list.htm>